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Report on Economic Independence Accounts

March 2018

Massachusetts Department of Transitional Assistance



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OVERVIEW

Chapter 18 Section 2 of the Massachusetts General Laws requires the Department of Transitional Assistance (DTA) to annually report on the status of Economic Independence Accounts:

“q) annually, on or before December 1, file a report detailing the use of economic independence accounts, established pursuant to section 16 of chapter 118, opened by recipients of cash assistance under transitional aid to families with dependent children; provided, that the report shall include, but not be limited to, the number of accounts opened and the average balances in the accounts and a detailed list of reasons for expenditures from the accounts. The report shall be filed with the clerks of the house of representatives and the senate who shall forward the report to the house and senate chairs of the joint committee on children, families and persons with disabilities and the house and senate committees on ways and means;”

BACKGROUND

DTA’s mission is to assist and empower low-income individuals and families to meet their basic needs, improve their quality of life, and achieve long-term economic self-sufficiency. DTA offers programs and supports to help individuals and families achieve greater economic self-sufficiency, including food and nutritional assistance, economic assistance, and employment supports. DTA serves one out of every eight people in the Commonwealth including working families, children, elders, and people with disabilities.

ECONOMIC INDEPENDENCE ACCOUNTS

Since 2014, DTA has been working to implement *An Act to Foster Economic Independence* (Chapter 158 of the Acts of 2014). The law includes a series of comprehensive reforms designed to reduce fraud and enhance the Department’s approach to supporting pathways to economic self-sufficiency for recipients of Transitional Assistance to Families with Dependent Children (TAFDC).

With the core elements of the 2014 law implemented, DTA has been researching options for best meeting the legislative intent related to establishing Economic Independence Accounts (EIA). We are pleased to provide the following information, research and analysis regarding these accounts for your consideration.

The 2014 legislation calls for DTA to develop a “savings program” that allows TAFDC recipients to accumulate assets in excess of the \$2500 asset limit. The legislation states that these economic independence accounts can be used for “the first and last month of rent, a security deposit, costs related to education or training, or any other expense that the department determines will aid a recipient in transitioning off benefits.” The legislation specifies that these accounts must hold a designated amount of a recipient’s cash assistance in an escrow account and allow the recipient to deposit additional funds.

While an escrow account is simply an account held by a third party on behalf of two transacting parties, the economic independence accounts called for in the legislation seem to be modeled after Individual Development Accounts (IDA) or Individual Asset Accounts (IAA). IDAs are savings accounts that match deposits of low income working people to allow them to develop assets that can be used for specific purchases. These accounts also require participation in some sort of financial literacy education. Often IDA accounts involve a partnership between a state agency, a non-profit provider, and a financial

institution. The funding for these accounts is typically a combination of state funds, private donations, and the U.S. Department of Health and Human Services through the Assets for Independence Act. The federal TANF rules do not count any contribution to federally funded IDA accounts as cash assistance and give states discretion in counting any deposits to a state funded IDA account.

There are many entities throughout the country that administer IDA accounts for low income families; they do not have to be receiving cash assistance. There are at least six providers of IDAs across Massachusetts: <https://prosperitynow.org/map/idas>. The economic independence accounts proposed by the legislation differ from the IDAs in that they are for TAFDC clients, not wage earners, and that there is no provision for any matching funds. The accounts are similar in that the goal is to assist low income families to build assets without affecting eligibility for public benefits.

The express purpose of the 2014 legislation is to allow families to accumulate assets beyond the TAFDC asset limit in order to help with transitioning off benefits. Some states have attempted to do this by creating IDA accounts and some states have instituted more generous asset policies. Ten states have done both.

BACKGROUND & HISTORY

While DTA has not implemented economic independence accounts, the Department did implement IAA accounts. These accounts were tied to client participation in the Full Employment Program (FEP); these accounts had too many conditions attached to them and were minimally beneficial to clients. In addition, the accounts were an administrative burden and had a low participation rate. As a result they were discontinued.

In considering the economic independence accounts after the 2014 legislation was passed, DTA's main concern was that the low TAFDC grants (which has not been increased since 2001) and high cost of living in Massachusetts would not allow TAFDC families to set aside any portion of their cash assistance grant and still be able to meet their daily living needs. In consideration of this, DTA recognized the importance of finding matching funds or seeking an alternative solution to meet legislative intent.

OTHER STATES

IDA Programs

As of July 2015, 12 states do not have some version of an IDA program through one of their state agencies. Of the remaining states and the District of Columbia, 15 do not provide matching funds. The allowable uses include some combination of post-secondary education, purchase of a first home, capitalization of a small business, job training, homelessness prevention, retirement accounts, purchase of a vehicle, home repair or improvement, medical emergencies, assistive technology, transportation, work related clothing or equipment, vehicle repair, trust funds for children, cash value of life insurance policies, and individually approved plans. Some states limit the deposit amount and some states limit the amount of assets a family can accrue. All states disregard any assets in the account when determining benefit eligibility.

Some states only allow contributions from earned income. Other states allow contributions from multiple income sources including earned income. Most states that allow earned income to be deposited disregard some portion of the earned income in determining TANF benefit eligibility and benefit amount. One state only allows deposits from state subsidized employment programs similar to what was our FEP program.

To control what the assets are spent on, some states will only allow withdrawals in the form of vendor payments. States who allow cash withdrawals will count any money spent on an unapproved purchase as a resource in benefit determination.

Financing for matching funds comes from a combination of state, non-profit, and federal funds. When the programs are state funded the money comes from the general fund, the TANF block grant, or housing trust funds. Ten states offer tax credits to entities that support these programs.

These accounts are administered through different state agencies usually coinciding with the main funding source. The types of agencies involved include housing and community development, commerce and economic development, human and social services, labor, finance authority, and workforce development. Five states administer these programs through community based organizations.

Asset Limits

Currently eight states have no asset limit and two states have an asset limit of \$10,000. Eleven states do not count vehicles as an asset and another eighteen states exempt the full value of one vehicle either per household, per licensed driver in the household, or per adult in the household. Some of these states do place the restriction that the vehicle is only exempt if it is used for some combination of the following; to meet basic needs (food, fuel, water, and medical transportation), for employment, to transport a disabled person, or is the family's home. Some states that only exempt one vehicle will exempt a second vehicle if it is used for one of those purposes.

RESEARCH

It is widely accepted that there is a savings deficit across all income levels in America. Prosperity Now calls this phenomenon being asset poor. They define asset poor as individuals or families who do not have enough savings to live at the poverty level for three months if they lost all sources of income. According to their study, 46% of people in Boston alone are asset poor. The problem is more prevalent in low income families and even more so in minority communities.

IDAs are seen as one solution to this problem; however, they are resource intensive and expensive to maintain. At least one non-profit, EARN, based in California and operating nationwide has developed methods of implementing IDA accounts with less administrative burden and at lower costs.

The Pew Charitable Trusts recently released 3 analyses of public assistance programs that have expanded or eliminated asset tests for eligibility. Their studies show that states do not benefit from having low asset limits (defined at \$2,500 or less). In fact, states that increased or removed asset limits have administrative costs that are 2 percent lower than states with low asset limits. Virginia estimates their savings at \$30,000 annually. This is because states with low asset limits remove families from TANF benefits before they have had a chance to gain any financial stability. As a result these families return to the caseload over time and the state processes the same case multiple times.

States that have removed asset limits have not seen any net case load increase either in application rates or in approval rates. These states also saw no increase in TANF expenditures. This is explained by studies that suggest individuals apply for assistance based on their household circumstances, not on program characteristics. Furthermore, those families who are eligible for TANF programs based on income are those in the lowest income quintile and these families on average have a total asset accumulation below zero. Pew found that on average going from a low asset limit to a moderate asset limit (defined as \$3,000-\$9,000) resulted in a monthly increase of 98 cases. While going from a moderate asset limit to no asset limit had no impact on caseload size.

PEW also looked at states that exempt vehicles from asset tests and found that states that exempt at least one vehicle have the same level of TANF expenditure as states that only exempt a portion of the vehicle's value and administrative costs that are two percent less. States that eliminate vehicles as assets have an average of 172 fewer TANF recipients per 100,000 residents and reduce monthly caseloads by an average of 167.

Studies on eliminating vehicles from asset tests demonstrated that removing them as a countable asset had a positive effect on the economic stability of families. Without an asset test for vehicles there is an increased likelihood that families will own a car and that the car they own will be a more reliable car which is critical to maintaining steady employment and meeting the needs of young children.

CONCLUSION

After reviewing the research on economic independence accounts, IDAs and assets, it is clear that EIAs are complicated to establish and administer. DTA's past experience in this area did not yield a sustainable approach. Treatment of assets for eligibility and benefit determinations is also a key aspect of achieving the goals established in the 2014 legislation.

Governor's Baker's House 2 budget proposes an increase in the asset limit for initial and ongoing eligibility from the current \$2,500 to \$5,000. Raising the asset limit will enable families to save towards a security deposit, a car or education expenses that can help them move off of welfare benefits and towards economic mobility. DTA believes increasing the asset limit is a simpler, more expedient, and less administratively burdensome approach to enabling families to accrue savings on their path to self-sufficiency.